

OVERVIEW OF ECONOMIC DEVELOPMENT TAX INCENTIVES

Joint NER Appropriations Subcommittee, March 22, 2011
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Overview

- Economic Development Incentives
 - ▣ Installments and Carryforwards
 - ▣ Tax Credits Generated vs. Taken
 - ▣ Savings from Repeal of Incentives
- Corporate and Franchise Tax Expenditures Related to Economic Development
- Sales Tax Expenditures Related to Economic Development

Economic Development Incentives

- Article 3A – William S. Lee Act
 - ▣ Repealed in 2007 and replaced with Article 3J
- Article 3B – Business and Energy Tax Credits
 - ▣ Tax credits for energy property and facilities
- Article 3F – Research and Development
 - ▣ Tax credits for eligible research expenses
- Article 3G – Major Computing Facilities
 - ▣ Dell Incentive
- Article 3J – Growing Businesses

Economic Development Incentives

In general, major incentive credits (Article 3A – J) share certain attributes

- Can be taken against the corporate income or franchise tax.
- Credits are limited to 50% of taxable income
- Most credits are taken in installments over 4 or 5 years
- Carryforwards extend the time over which credits can be taken (range from 5-25 years)

Economic Development Incentives

- Credits Generated vs. Credits Taken
- Between 1996 and 2006, the total Lee Act credits generated exceeded \$2 billion.
- The amount of credits used or “taken” during that time totaled \$632 million.
- An estimated 35% of the generated credits will never be used.

Source: UNC Center for Competitive Economies

Article 3J Tax Credits

- Tax Credits for Growing Businesses
 - ▣ Replaced William S. Lee Act Incentives in 2007
 - ▣ Credit for Creating Jobs
 - ▣ Credit for Investing in Business Property
 - ▣ Credit for Investing in Real Property (Tier 1 counties only)

2008 Article 3J Jobs Credits Generated

	Number of New Jobs	Credits Generated
Tier One	2,284	28,550,000
Tier Two	839	4,253,000
Tier Three	3,249	2,637,875
Total	6,372	\$35,440,875

2008 Investment in Business Property Credits Generated

	Investment	Credits Generated
Tier One	402,168,157	28,095,346
Tier Two	235,859,128	11,843,752
Tier Three	703,924,546	36,273,286
Total	\$1,341,951,831	\$76,212,384

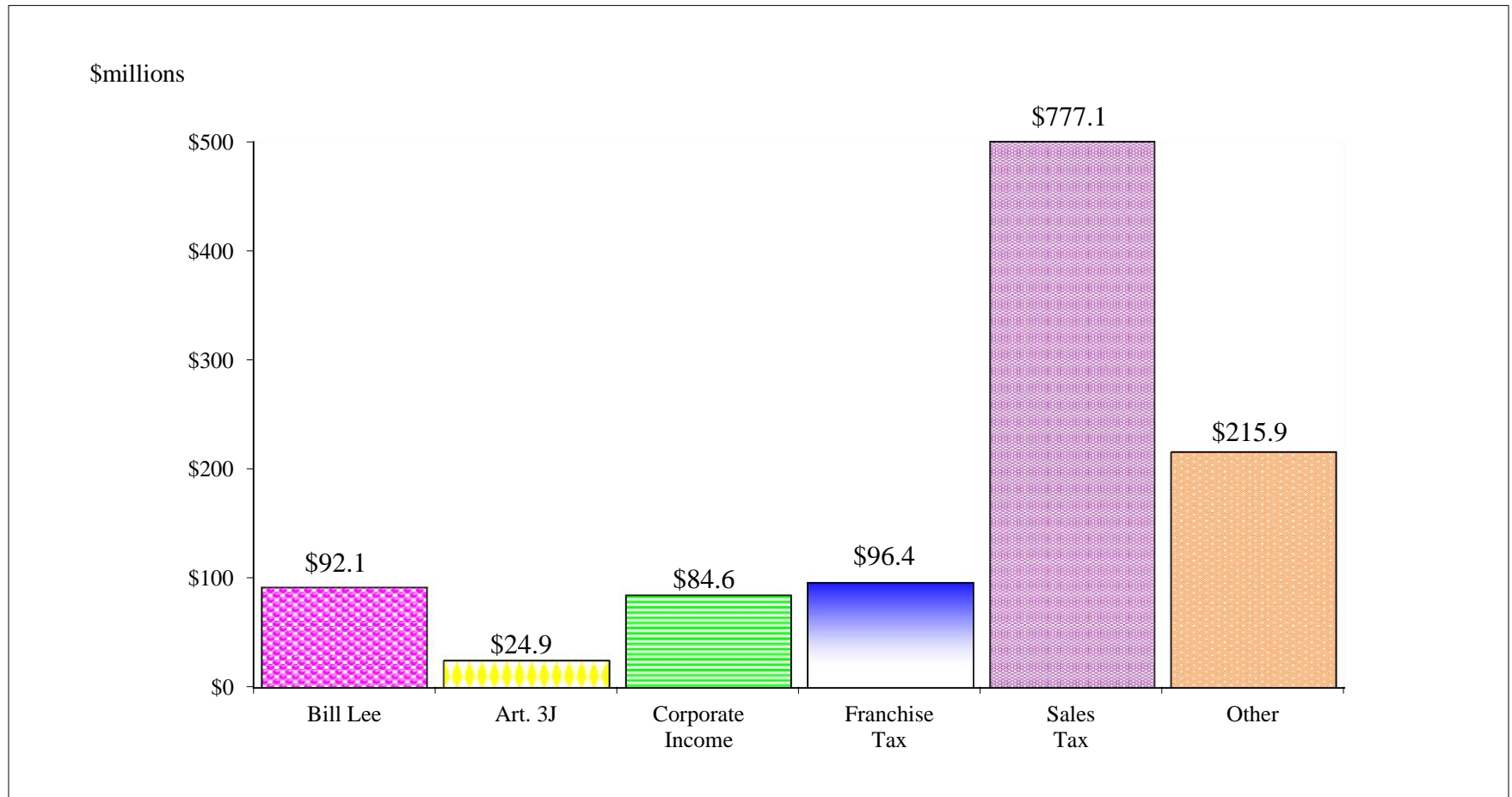
Timing of Tax Credit Impact

Tax Credits Taken (\$millions)

Year of Tax Credit Generation	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
2008	5.4	12.1	12.1	12.1
2009		5.4	12.1	12.1
2010			5.4	12.1
2011				5.4
TOTAL	\$5.4	\$17.5	\$29.6	\$41.7

Tax Incentives

Economic Development Tax Credits FY 2009-10



Source: NC Dept. of Revenue 2009 Biennial Tax Expenditure Report

Corporate Income Tax Expenditures

- ▣ Double-weighting Sales Apportionment
 - \$41.8 million
 - Sales apportionment factor for corporate income tax is double-weighted
 - Benefits companies with a large physical presence in North Carolina
- ▣ Cigarette Exportation Credit
 - \$9.1 million
 - Credit amount up to \$10 million for companies that export cigarettes to a foreign country through state ports.
- ▣ Film Industry Production
 - \$22.5 million

Sale Tax Expenditures

- Includes Exemptions, Refunds and Preferential Rates
- Sales to Farmers
 - ▣ \$294.9 million
 - ▣ Sales tax exemption for various items sold to farmers for agricultural purposes.
- Packaging Costs for Manufacturers
 - ▣ \$126.6
 - ▣ Sales tax exemption for wrapping paper, cloth, plastic bags, packages, containers, etc.
- Refund for Certain Industrial Facilities
 - ▣ \$2.4 million
 - ▣ Refund for building materials for facilities in eligible industries (air courier, aircraft manufacturing, bioprocessing, computer manufacturing, financial services, vehicle manufacturing, pharmaceutical, semiconductor, solar electricity)

Economic Development Inventory



- http://www.ncleg.net/fiscalresearch/frd_reports/frd_reports_pdfs/Inventories/Final_2010_EDI.pdf

Questions?

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